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American Banker

The Daily Financial Services

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TODAY

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REPUBLICBANK CORP. said it was selling $200 million in notes backed by credit card receivables, which is the first public securities offering of its kind. The notes were due to be priced by today. Goldman, Sachs & Co., the lead underwriter of the issue, surprised some in the financial community by becoming the first to manage such a deal. Most believed First Boston Corp. would win that honor as manager of Bank of America's expected sale of $250 million in certificates backed by credit card receivables..... 3

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NINETEEN EIGHTY-SIX will be remembered as a year of records and firsts in the capital markets, and December followed the pace. Several new issues were introduced in the capital markets as analysts predicted further market innovation and liberalization for 1987. Fannie Mae made its first direct issue of Remics in the form of stripped mortgage-backed securities, which were pioneered by Fannie Mae..... 24

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Quote

The courts of this country should not operate as an international deposit insurance company, hauling foreign sovereigns before us whenever disgruntled investors so desire.

The U.S. Court of Appeals for the Ninth District in San Francisco, in a ruling against investors who lost millions of dollars worth of investments in Mexican certificates of deposit when Mexico instituted a program of exchange controls in 1982. [Page 2]

Unquote

6 Home Loan Bank Chiefs' Pay Surpasses the $200,000 Mark

Their Federal Reserve Counterparts Lag Behind

By JIM McTAGUE

Washington Bureau

WASHINGTON — As Congress frets about an administration plan to raise top government salaries above $100,000, the salaries of six presidents of the nation's 12 Federal Home Loan Banks continue to climb above the $200,000 mark they first reached in 1986.

Assuming the presidents get their full 3% raise in 1987, their salaries will range from a low of $190,550 at six of the banks to a high of $216,300 for the presidents of the San Francisco and Atlanta banks, according to data released to the *American Banker* by the Federal Home Loan Bank Board under provisions of the Freedom of Information Act.

In comparison, President Reagan makes $200,000 per year; Vice President Bush, $100,800; Federal Home Loan Bank Board Chairman Edwin Gray, $74,600; and a U.S. Congressman, $74,500. The head of the Federal

AN *American Banker* SPECIAL REPORT

Home Loan Mortgage Corp., Leland Brendsel, receives $170,000.

Roslyn Payne, president of the Federal Asset Disposition Corp., established by the Federal Home Loan Bank Board last year, makes at least $250,000, but the Bank Board argues

Salary: Page 2 ➤

Many Items Still Unresolved in Talks To Sell BankAmerica's Schwab Unit

By MICHAEL A. ROBINSON

SAN FRANCISCO — Nearly 60 items remain unresolved in BankAmerica Corp.'s negotiations to sell its discount brokerage subsidiary, Charles Schwab & Co.

The two sides have not reached a tentative agreement, the sources added, and no new meetings between principal negotiators have been set.

Instead, the legal departments of the two companies are attempting to iron out differences so that founder Charles R. Schwab can buy back the brokerage, which BankAmerica bought in 1983 for about $53 million in stock.

The points under discussion are "minor" contingencies, one source said, adding that "no one is a deal-wrecker." Taken together they could derail a final agreement, but both sides expect to come to terms on a deal valued at more than $250 million.

A tentative agreement between the two companies could be reached early next week and submitted for approval to the BankAmerica board at a meeting on Wednesday in San Francisco.

BankAmerica is selling the discount brokerage, the nation's largest, as part of a plan to trim assets by up to $12 bil-

Schwab: Page 23 ➤

Credit Unions To Get New Rating System

'Camel' Rating Method Will Be Implemented

By JAY ROSENSTEIN

Washington Bureau

WASHINGTON — The government's "early warning system" for keeping tabs on the financial condition and management of the nation's 15,000 federally insured credit unions is about to be overhauled.

The National Credit Union Administration, in conjunction with state supervisors, voted unanimously on Wednesday to implement a program similar to the rating system used by the federal supervisors of commercial banks and thrift institutions. That is the so-called Camel system, which gets its name because it evaluates and rates five different components of an institution's operations: capital adequacy, asset quality, management, earnings, and liquidity.

The current rating system for credit unions includes an evaluation of these five areas, but only an overall "judgmental" rating is assigned to the credit union. National Credit Union Administration officials said that the switch to giving ratings for each of the five components, in addition to an overall rating, will help the government better identify areas of weakness at a credit union.

Officials of that group said the existing one-code system also is more subjective than a "tiered" rating system. They said a change will lead to more uniformity and consistency in evaluations done by state and federal examiners nationwide.

Under the new system, each compo-

Credit Unions: Page 22 ➤

Major Regional Banks Around Nation Report Strong Gains

By JOHN P. FORDE

NEW YORK — Major regional banks from around the country reported strong fourth-quarter earnings gains Thursday, largely thanks to improved lending volume and strong improvements of income from noninterest-bearing sources.

Fourth-Quarter Earnings

Allied Bancshares, Houston, was able to report earnings in the fourth quarter after several nonrecurring items, including selling off nearly all of its tax-exempt investment portfolio.

Marine Midland Banks Inc., Buffalo, N.Y., on Thursday reported a 26% jump in fourth-quarter 1986 net income to $38 million, or $1.89 a share, from $30 million, or $1.47 a share, in the fourth quarter of 1985.

Increased lending volume helped Bank of New York Co. to a 14.5% jump in fourth-quarter earnings to $38.5 million from $33.6 million in the same period a year earlier. The company earned $1.12 a share in the latest quarter, up 13% from 99 cents a share in the same period a year earlier.

Aided by earnings from its metropolitan division, First Bank System Inc., Minneapolis, had record fourth-quarter earnings of $54.8 million, or 92 cents per share, compared with net income of $44.7 million, or 76 cents a share, in the comparable 1985 quarter.

MARINE MIDLAND

In a statement, Marine attributed its earnings increase to improved net interest income and revenues from several fee-based businesses throughout the year, and particularly in the fourth quarter, which more than offset higher operating expenses.

Marine also said that the full-year's results reflect its strategy to focus on "higher-return domestic businesses, primarily consumer banking, middle-market banking, and asset-based financing, while at the same time continuing to emphasize reserve strength and loan quality."

Marine said its net interest income on a taxable-equivalent basis for the 1986 fourth quarter was $235.7 million, a 14.2% increase from $206.3 million in 1985's fourth quarter. Included in this jump was $7 million attributable to Westchester Financial Services Corp., which Marine acquired in late September.

Compared with the prior year's fourth quarter, Marine's average loans grew by $1.8 billion, or 11.7%, in the fourth quarter. Average domestic loans grew by $3.1 billion, or 26.1%. The taxable-equivalent net yield on average total assets for the fourth quarter was 4.06%, compared with 3.98% a year earlier.

FIRST BANK SYSTEM

For all of 1986, First Bank System said it had record net income of $202.9 million compared with $166.8 million in 1985.

First Bank Systems' metropolitan division, which consists of its two lead banks and 13 other banks in the

Regional Banks: Page 23 ➤

Appeals Court Upholds Limits On Exchange

Ruling Deals Setback to Holders of Mexican CDs

By ROBERT LUKE
West Coast Bureau

LOS ANGELES — Americans seeking to recoup losses on their investment in Mexican certificates of deposit were dealt a setback by the U.S. Court of Appeals for the Ninth Circuit in San Francisco.

The court ruled that the program of exchange controls instituted by Mexico was lawful, and it noted that a state has the right under international rules to make every effort to stabilize its currency in times of financial stress.

San Rafael, Calif., attorney R.J. Wolf, who represents some 2,000 plaintiffs, said he is in the process of asking the full Ninth Circuit Court of Appeals to review the decision of a three-judge panel.

"I am obviously disappointed," Mr. Wolf said. "But I am hopeful that, ultimately, the right decision will be reached either by this court or the Supreme Court." Mr. Wolf said that, in his opinion, thousands of investors lost several hundred million dollars by investing in the Mexican certificates of deposit.

Beginning in 1979, investors were solicited by Mexican banks to buy peso- and dollar-denominated certificates of deposits issued by three Mexican banks, which were privately owned at the time.

But as a result of plummeting oil prices in 1982, the Mexican government lacked funds to repay debts, and it imposed strict exchange controls and nationalized the nation's banks.

In ruling for the defendants, the panel said:

"The courts of this country should not operate as an international deposit insurance company, hauling foreign sovereigns before us whenever disgruntled investors so desire."

The panel said the plaintiffs "chose to purchase both dollar and peso certificates of deposit because of the extraordinary rates of return. The actions of the government of Mexico and the losses they occasioned were within the purview of the risks associated with those potentially extraordinary returns."

Dollar certificates of deposit maturing after nationalization could only be paid in pesos at an exchange rate set by Mexico's central bank. Losses resulted when the pesos, declining sharply in value, were reconverted back to dollars. Peso accounts also sustained losses on conversion.

By imposing the exchange controls and setting the exchange rate, the Mexican government confiscated property in violation of international law, the plaintiffs charged.

The panel, however, disagreed in a Jan. 6 opinion.

"Mexico's institution of exchange controls was an exercise of its basic authority to regulate its economic affairs," it said, affirming a district court decision favoring the defendants, Multibanco Comermex, SA; Bancomer, SNC; and Banco Nacional de Mexico, SA.

"We cannot conclude that the program of exchange controls instituted by Mexico was unlawful," the panel said, observing that "it is a recognized rule of international law that a state has the right to make every effort to stabilize its currency in time of financial stress." ■

Overdraft Proposal May Make Banks Scramble

By ROBERT M. GARSSON
Washington Bureau

WASHINGTON — Banks that centralize funds from remote accounts for corporate customers may find themselves scrambling to stay within central bank limits on intraday overdrafts if a new Federal Reserve Board proposal is implemented, an agency staffer said Thursday.

The reason, said Elliott McEntee, associate director for bank operations at the Fed, is that the central bank is proposing to delay until 1 p.m. Eastern time the posting of some automated clearing house payments when it calculates a bank's intraday, or "daylight overdraft," position.

The payments involved are automated clearing house debits, which are currently posted to the originating bank's Fed account at the opening of business. In the automated clearing house system, a debit is created by a bank to move money from another depository institution to itself.

Corporations use the debit transactions to transfer money electronically from a number of regional banks to a central bank account. This process, known as cash concentration, is used to collect, in a centralized account, payments received through a variety of geographically dispersed banks.

"The impact we see," said Mr. McEntee, "is that originators of debits can't use the proceeds until 1 p.m.

"For those banks that originate a lot of cash concentration debits and do a big wire business, it could be a problem."

Corporations use cash concentration to collect funds for short-term investments, which are ordinarily made early in the morning.

Under the new rules, many banks may find themselves bumping up against their overdraft limits, since they won't be able to count the automated clearing house transfers as cash received until in the early afternoon.

The problem for banks will be compounded, Mr. McEntee said, if the Fed lowers its daylight overdraft limits, as it has also proposed, or if it begins charging for overdrafts.

A daylight overdraft occurs when a bank has electronically transferred more money out of its Federal Reserve account than it has received, or when it has wired out more funds than it has received over CHIPS, the New York Clearing House's international funds transfer network.

Such intraday overdrafts are common because banks routinely wire out funds in anticipation of receiving transfers from other institutions later in the day.

Mr. McEntee spoke at a conference on automated clearing house risk sponsored by the National Automated Clearing House Association.

Jacqueline Dout, manager of cash operations for Koppers Co., Pittsburgh, said many companies have not yet had time to to measure the impact of the new proposals on their operations. The proposals were put out last month for public comment.

A major issue, she said, is whether banks will grant their corporate clientele access to funds early in the morning as they do now, or delay access until early afternoon.

Most companies, she said, will probably push for early-morning access. ■

Salaries of Six Home Loan Bank Presidents Top $200,000

➳ Continued from Page 1

that she is not a federal employee.

Bank Board and industry officials further argue that the presidents' salaries are more fairly compared with those of executives at major financial institutions than with those of federal government officials. The reasons, they claim, are that the presidents are hired after national searches and that the Federal Home Loan Banks are self-supporting, deriving income from examination fees and services sold to S&Ls.

"The salaries seem commensurate with the responsibility compared to other private sector banks," said Philip Gasteyer, who directs the Washington, D.C., office of the U.S. League of Savings Institutions. He added that the salaries are approved by the directors of each bank. Some directors come from industry and others are public interest directors.

All raises are subject to Bank Board approval.

The 1987 increase, the smallest in recent years, reflects a decline in the inflation rate, a Bank Board spokesman said. He said it was not a symptom of the new frugality at the Bank Board engendered by news stories and government probes of Chairman Edwin Gray's expense accounts.

Mr. Gray's expenses from 1983 to 1986 totaled in the millions, and the district banks picked up over $300,000 of that tab. He ordered a halt to the district bank expense payments in December, one day after releasing the expense accounts of senior officers to news organizations who had requested the material under the Freedom of Information Act.

Mr. Gray also reimbursed the district banks $24,000 for some of those expenses, including $13,000 used to charter a jet to fly from Indianapolis to California to visit his father, who was gravely ill at the time.

Mr. Gray also accepted expenses from the U.S. League of Savings Institutions and other trade groups. In December, the Office of Government Ethics, which investigated the Bank Board expense accounts, requested that the Justice Department look into the matter, citing its own lack of authority to subpoena trade group records.

The Senate Banking Committee announced that it too would look into the expense pratices of Mr. Gray and former board members.

Richard Pratt, a former chairman of the Bank Board, recalled that during his last year in office, from 1982-83, the salaries of presidents ranged from $85,000 to $125,000, which was paid to the San Francisco president.

Though they may fall short of the salaries of the captains of industry, the paychecks of the Federal Home Loan Bank presidents are significantly fatter than those of their counterparts at the 12 Federal Reserve Banks.

Currently, the president of the Federal Reserve Bank of New York receives the highest salary in the system at $170,800 — $35,200 less than his counterpart at the New York Federal Home Loan Bank and $45,500 less than the highest Federal Home Loan Bank salaries.

The lowest-paid Federal Reserve president is Gary Stern of Minneapolis at $110,000, who worked his way up through the ranks to that position and whose salary is currently under review. He makes $80,550 less than the lowest-paid presidents of the Federal Home Loan Banks.

Directors at the district Federal Home Loan Banks last received pay increases in 1986, according to the Bank Board. The maximum permissible fee for the chairman of the board of directors of each bank rose from $750 to $1,200 per day. Fees for directors attending board or committee meetings

Salary: Page 23 ➳

Presidents' Salaries At Federal Home Loan Banks

City	Current President	1985	1986	1987 *
Boston	Richard Syron	$175,000	$185,000	$190,550
New York	Bryan Dittenhafer	195,000	200,000	206,000
Pittsburgh	Eugene Calnan	170,000	185,000	190,550
Atlanta	Carl Kamp	195,000	210,000	216,300
Cincinnati	Charles Thieman	185,000	200,000	206,000
Indianapolis	Ronald Morphew	170,000	185,000	190,550
Chicago	Leo Blaber	170,000	185,000	190,550
Des Moines	H. Darrell Hibbs	170,000	185,000	190,550
Dallas	Roy Green	185,000	200,000	206,000
Topeka	Kermit Mowbray	170,000	185,000	190,550
San Francisco	James Cirona	195,000	210,000	216,300
Seattle	James Faulstich	185,000	200,000	206,000

* Assumes 3% increase

Presidents' Salaries At Federal Reserve Banks

City	Current President	1985	1986
Boston	Frank Morris	$145,600	$150,300
New York	E. Gerald Corrigan	159,600	170,800
Philadelphia	Edward Boehne	126,000	131,200
Cleveland	Karen Horn	130,000	135,300
Richmond	Robert Black	130,000	131,300
Atlanta	Robert Forrestal	127,000	141,600
Chicago	Silas Keehn	150,600	155,900
St. Louis	Thomas Melzer	121,000	128,500
Minneapolis	Gary Stern	101,000	110,000
Kansas City	Roger Guffey	126,000	130,000
Dallas	Robert Boykin	123,700	127,700
San Francisco	Robert Parry	160,100	146,500*

* New employee

Correction

A story in the Jan. 8 edition of the *American Banker* ("1st Interstate to Refile Takeover Plan with Fed," page 3) incorrectly listed BankAmerica Corp.'s nonperforming loans as $2.17 billion. BankAmerica's nonperforming loans actually were $4.5 billion, and loan-loss reserves were $2.17 billion, at Sept. 30, 1986. ■

Banks Report Strong Results

Continued from Page 1

Minneapolis/St. Paul area, earned $187.2 million in 1986, a 24.7% increase from the 1985 level.

Fourth-Quarter Earnings

These earnings were more than enough to offset losses experienced by the bank's regional division, which consists of 58 banks located in outlying parts of Minnesota, Montana, North Dakota, South Dakota, and Washington.

For the year, the regional division had a loss of $30.3 million. In 1985 the regional division earned $16.4 million. The loss, First Bank System said, reflects a substantial increase in its loan-loss provision and other real estate expenses without sufficient income offsets.

Noninterest income for the year doubled to $737.1 million compared to $315.3 million in 1985, an improvement that the company attributed to large security gains as well as fee income.

Security gains accounted for $401.9 million of the increase and resulted from a "favorably positioned investment portfolio in a declining interest rate environment," according to First Bank System. Without the securities gains, noninterest income would have been up only 6.6%.

BANK OF NEW YORK

For the year, Bank of New York Co. earned $155.2 million, or $4.54 per fully diluted share, up 19.2% from the $130.3 million, or $4.02 a share, in 1985.

J. Carter Bacot, chairman of the holding company, attributed the gain to a 20% growth in average loans during the year as well as improved trust, securities processing, and credit card fees.

As with other major banking companies, Bank of New York was helped in its fourth-quarter earnings by lower federal, state, and local taxes on its portfolio of leveraged leases. Bank of New York said its gain in the fourth quarter of this year was $2.4 million from reevaluating its leases in light of lower taxes.

In 1986, the company's consolidated effective tax rate dropped to 15.1% from 25.1% in 1985. The company said the drop was primarily due to "higher tax-exempt income, a larger adjustment to the leveraged lease portfolio, as well as the effect of capital gains."

ALLIED BANCSHARES

In Houston, meanwhile, Allied Bancshares said that several one-time transactions helped it to show a small profit of $4.1 million, or a dime per share, in the fourth quarter as compared to a profit of $29.9 million, or 72 cents a share, a year earlier.

For the year, the holding company reported a loss of $17.6 million, or 42 cents per share, in 1986 versus a profit of $122 million, or $2.95 per share, in 1985.

During the fourth quarter, Allied sold a substantial chunk of its tax-exempt assets, including virtually its entire portfolio of leveraged leases, which resulted in a $32.9 million loss. But the sale of tax-exempt bonds, combined with some taxable securities, brought a profit of $63.6 million.

Gains in the value of Allied's venture capital investments brought $6.8 million in profits, partially offset by a $3 million loss on other venture capital investments. The company also suffered an expense of $10.4 million from operating, selling, or writing down the value of foreclosed real estate and other assets.

Despite an addition of $39 million during the fourth quarter to Allied's reserve for loan losses, the account fell as the company charged off $47.9 million in bad loans. Real estate accounted for 46% of the loan chargeoffs, followed by 38% from commercial and consumer loans and 17% from energy-related problems.

Allied, though, kept its loan-loss reserve at a steady 2.05% of total loans as the holding company reduced its loan portfolio — from $6.8 billion at Sept. 30 to $6.4 billion at yearend, and a full billion dollars smaller than the end of 1985.

Nonperforming loans increased to $422.3 million, or 6.48% of total loans, at yearend compared to $407.8 million at Sept. 30.

Reporters David LaGesse in Dallas and Lisabeth Weiner in Chicago contributed to this article.

Fourth-Quarter Earnings
Marine Midland Banks Inc.

Quarterly Comparison

Figures in Millions Except Per Share

	4Q '86	4Q '85
Net Income	$38.0	$30.0
Per Share	1.89	1.47
Net Interest Income (Taxable Equivalent)	235.7	206.3
Margin	4.06%	3.98%
ROA	.65%	.57%
ROE	12.20%	10.29%
Noninterest Income	74.2	64.3
Noninterest Expense	198.3	167.2
Loss Provision	44.1	89.2
Net Chargeoffs	27.4	65.0

Year Comparison

Figures in Millions Except Per Share

	Yr. '86	Yr. '85
Net Income	$145.0	$125.0
Per Share	7.19	6.06
Net Interest Income (Taxable Equivalent)	876.3	767.1
Margin	3.99%	3.76%
ROA	.65%	.61%
ROE	12.05%	11.05%
Noninterest Income	277.6	262.0
Noninterest Expense	729.8	639.6

Balance Sheet

Figures in Millions

	12/30/86	12/30/85
Assets	$24,800.0	$22,400.0
Deposits	17,400.0	16,600.0
Loans	18,700.0	15,600.0
Shareholder Equity	1,200.0	1,100.0
Loss Reserve	269.7	246.8
Reserve/Loans Ratio	1.44%	1.58%
Nonperforming Loans	438.9	443.1
as % of Loans	2.35%	2.83%
Primary Capital Ratio	7.31%	7.38%

Fourth-Quarter Earnings
Bank of New York Co.

Quarterly Comparison

Figures in Millions Except Per Share

	4Q '86	4Q '85
Net Income	$38.5	$33.6
Per Share	1.12	.99
Net Interest Income (Taxable Equivalent)	166.2	143.7
Margin	4.11%	4.01%
ROA	.80%	.80%
ROE	15.36%	15.26%
Noninterest Income	103.1	66.5
Noninterest Expense	161.3	114.7
Loss Provision	40.5	30.9
Net Chargeoffs	19.5	21.8

Year Comparison

Figures in Millions Except Per Share

	Yr. '86	Yr. '85
Net Income	$155.2	$130.3
Per Share	4.54	4.02
Net Interest Income (Taxable Equivalent)	652.4	556.2
Margin	4.19%	4.19%
ROA	.85%	.84%
ROE	16.24%	15.48%
Noninterest Income	355.1	253.4
Noninterest Expense	566.6	425.1

Balance Sheet

Figures in Millions

	12/30/86	12/30/85
Assets	$20,708.9	$18,486.2
Deposits	15,112.8	12,369.0
Loans	13,786.3	12,393.8
Shareholder Equity	1,052.5	921.2
Loss Reserve	217.0	173.1
Reserve/Loans Ratio	1.57%	1.40%
Nonperforming Assets	375.3	349.8
as % of Loans	2.70%	2.80%
Primary Capital Ratio	7.29%	7.24%

Schwab . . .

Continued from Page 1

lion. The company needs to raise money because of its continuing losses, which totaled $600 million in the first nine months of this year.

The transaction could give the ailing San Francisco-based bank a gain of about $140 million in the first quarter of this year. BankAmerica has covered some of its operating losses by shedding assets, such as the sale last month of its Italian bank to Deutsche Bank of West Germany for $603 million.

A.W. "Tom" Clausen, BankAmerica's chief executive officer, said in an interview published this week that his company is considering the proposals of several prospective buyers besides that of Mr. Schwab. It was not known if Mr. Clausen intended to use the media to put pressure on Mr. Schwab or if the bank is talking seriously with more than one buyer.

A spokesman for the bank said "there is nothing inconsistent" with Mr. Clausen's remarks, and he reported that the bank is close to a tentative agreement with Mr. Schwab.

Sources said the general framework of a deal in which Mr. Schwab would buy back the company for roughly $250 million developed earlier this month. BankAmerica would retain a stake in the firm of between about 10% and 12%, making the transaction worth a total of approximately $275 million.

BankAmerica would not receive equity ownership through common stock. That is because equity participation would make Schwab an affiliate of the bank, and Mr. Schwab wants independence from the troubled parent company.

Mr. Schwab has received the financial backing of his friend George R. Roberts, a partner in the San Francisco leveraged buyout firm of Kohlberg Kravis Roberts & Co., sources said. Mr. Schwab, his senior managers, and employees participating in a profit-sharing plan eventually will become the largest owners in the firm.

BankAmerica decided to sell the discount brokerage last November because the subsidiary is not part of the bank's core business. The bank is restructuring to restore profits and remain independent from First Interstate Bancorp., which wants to buy BankAmerica for $3.25 billion. ■

Salary . . .

Continued from Page 2

rose from $400 to $650 per day.

Along with the salary data, the Bank Board attached considerations it said had a bearing on the levels of bank president compensation.

Among them, the Bank Board noted:

- The Federal Home Loan Banks are operated much like private sector institutions, although they have public responsibilities. Member stockholders expect a market-rate dividend . . . In recent years, the banks have been very profitable.
- The banks are major financial institutions with assets between $5 billion and $33 billion.
- In addition to being bank presidents, the incumbents are also principal supervisory agents.
- Salaries are as much as 100% below those available at private sector institutions of approximately the same asset size.
- Bank president salaries are less than the salaries for presidents at the medium and large institutions they regulate. ■

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